



Report to the Chairman, Senate  
Committee on Governmental Affairs

September 1993

# RESOLUTION TRUST CORPORATION

## Additional Monitoring of Basic Ordering Agreements Needed



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General Government Division

B-253540

September 13, 1993

The Honorable John Glenn  
Chairman, Committee on Governmental  
Affairs  
United States Senate

Dear Mr. Chairman:

Because of your concern about the Resolution Trust Corporation's (RTC) possible abuse of a basic ordering agreement (BOA) for its Western Storm project, you asked us to determine if RTC had established and implemented internal controls that would detect abuses of BOAs and other types of contracts. To determine this, we reviewed RTC's efforts to compete task order contracts awarded under BOAs and assessed its contracting information system as a management tool for monitoring the contracting process.

RTC uses BOAs to meet recurring needs for the same services. BOAs expedite future contracting actions by completing the initial steps in the contractor selection process before a particular need arises.

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## Results in Brief

In 1991 and early 1992, RTC lacked adequate contracting guidance for using BOAs, effective controls to ensure that management approvals were obtained before the contract award and a thorough review to detect deficiencies in the contractor selection process. Also, RTC awarded task order contracts without certain provisions to protect the government's interests. After these task order contracts were awarded, RTC changed its contracting manual and began programs designed to improve the oversight of contracting activities. However, RTC did not have an adequate management information system for monitoring contracting activities.

At the time these task order contracts were issued, RTC's contracting procedures contained little guidance on what constituted adequate competition for these contracts. We found that RTC obtained 1 or 2 responsive bids for 29 of 61 task order contract solicitations we reviewed. In May 1992, RTC revised its contracting manual, which increased contracting staff flexibility in determining the extent of competition for task order contracts by suggesting but not requiring that all BOA contractors be solicited for each contract. However, in its revisions, RTC failed to provide requirements that staff determine whether contractor selection methods ensured fairness and consistency.

We also found other problems relating to task order contracts. Thirty-five of the 64 task order contracts required management reviews and approvals according to RTC contracting procedures. However, 34 of the 35 task order contracts were not reviewed and approved as required. Further, task order contracts were issued without provisions to protect the government's interests as required by RTC contracting procedures. Of the 54 task order contracts available for review, 17 did not include firm delivery dates or ceiling amounts or fixed prices. Also, 27 of the 61 task order contract solicitations contained 1 or more deficiencies, such as not following guidance or using inappropriate evaluation criteria or methodologies. These deficiencies increased RTC's costs by a minimum of about \$1 million.

RTC changed its monitoring and oversight of contracting practices in May 1992, after most of the task order contracts we reviewed were issued. These changes included creating Field Monitoring and Competition Advocacy programs in late 1992 to ensure compliance with contracting policies and procedures and to encourage competition. Also in March 1993, the Chairman of the Thrift Depositor Protection Oversight Board announced a 10-point program, which included reforms for improving RTC's contracting system and its internal controls. These actions are positive in concept, but we have not assessed their implementation.

Regardless of how well the controls work individually, RTC will need an adequate management information system for monitoring its overall contracting activities. However, RTC's current contracting information system, the Contract Activity Reporting System (CARS), lacks such essential information as the dollar level of the contract expenditure authority and the name of the approving official, which RTC needs to monitor compliance with contracting policies and procedures and to correct the problems we note in our report.

To ensure that the abuses that occurred with BOAs do not continue, RTC needs to monitor contracting program changes including the implementation of the 10-point program. Such monitoring is needed to ensure that these programs help improve the contractor selection process and ensure that provisions to protect RTC's interests are included in its task order contracts. To effectively monitor these programs, RTC needs to modify CARS to include complete and accurate contract inventory data and to provide management the information it needs to oversee compliance with contracting policy and procedures.

In written comments on a draft of this report, RTC agreed with the report's recommendations. RTC also commented that it has already made changes to improve CARS and is studying how to implement our other recommendation.

## Background

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) authorized RTC to use private sector contractors whenever it is practical and efficient. FIRREA also mandated that RTC set standards for adequate competition and fair and consistent treatment of offerors. RTC, as a mixed-ownership government corporation, is not required to follow the Federal Acquisition Regulation and has developed its own contracting policies and procedures. RTC also developed CARS to provide information on its contracts.

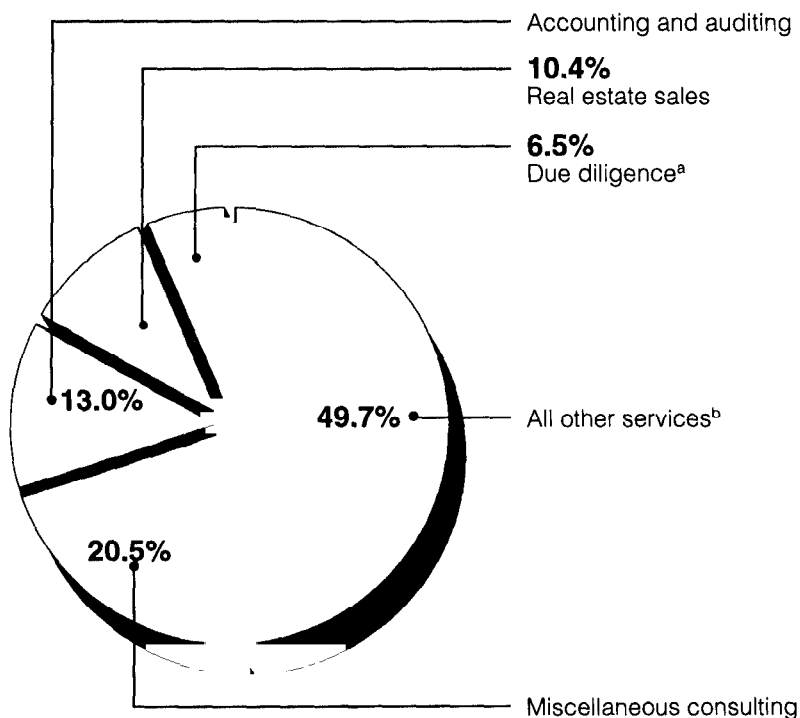
One contracting tool RTC uses is the BOA. A BOA may be used when the same services are needed on a recurring basis. Its purpose is to expedite future contracting actions by performing the initial steps in the contractor selection process before a particular service is needed. RTC has created BOAs for use nationally, regionally, and locally.

RTC defines a BOA as a written instrument of understanding containing (1) terms applying to future task order contracts; (2) a general description of the services that may be needed; and (3) the methods for pricing, issuing, and delivering task order contracts under a BOA. RTC begins the BOA process by issuing a general description of the services it anticipates needing and soliciting proposals from interested prospective contractors. In response, the contractors prepare proposals that describe their expertise and resources, but the proposals do not include a bid for a specific task. RTC evaluates the proposals and selects qualified contractors to form a pool. Selected contractors sign BOAs with RTC that establish the general terms for future work.

When services are needed, RTC provides the contractors in the pool with information about the assignment and solicits proposals from them. RTC evaluates the proposals, selects a contractor, and awards a task order contract. The BOA and the signed task order contract together constitute the contract.

As of July 1, 1992, CARS recorded the award of about 290 BOAs to acquire various types of services.<sup>1</sup> The categories of accounting and auditing and miscellaneous consulting accounted for about one-third of the BOAs established and about one-half of the estimated contractor fees awarded. Figures 1 and 2 show the types and estimated fees of RTC's BOAs.

**Figure 1: BOAs by Type of Services**

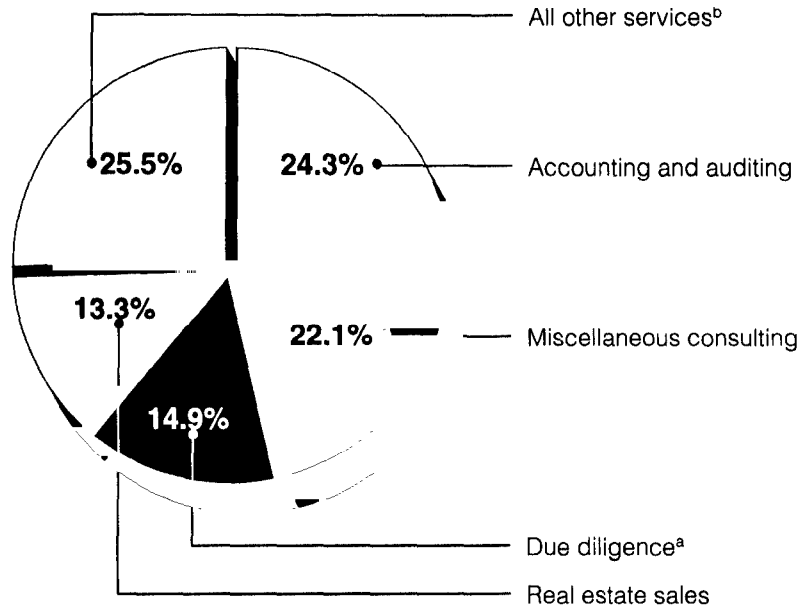


<sup>a</sup>Due diligence involves data collection to prepare investor files, property inspection, market analysis, cash flow analysis, asset valuation, and preparation of asset pools.

<sup>b</sup>All other services include 32 categories of services, such as asset management, appraisals, and construction services.

Source: RTC CARS data as of July 1, 1992.

<sup>1</sup>In addition to the 290 BOAs created by RTC contracting offices, CARS recorded an additional 18 BOAs created by thrift institutions for a total of 308.

**Figure 2: BOAs by Estimated Fees**

<sup>a</sup>Due diligence involves data collection to prepare investor files, property inspection, market analysis, cash flow analysis, asset valuation, and preparation of asset pools.

<sup>b</sup>All other services include 32 categories of services, such as asset management, appraisals, and construction services.

Source: RTC CARS data as of July 9, 1992.

## Improper Use of BOAs

The improper use of BOAs was the subject of two hearings before the Committee. In 1992, we found that RTC's Western Region improperly used a BOA to noncompetitively award a \$24 million contract to reconcile asset records for 94 failed thrifts in 1991.<sup>2</sup> This project is known as Western Storm. When an RTC headquarters official did not approve the use of noncompetitive procedures, the region split the contract into 92 task order contracts and awarded all of them to 1 contractor without competition. RTC regional officials then asserted that the task order contracts were

<sup>2</sup>Resolution Trust Corporation: Preliminary Results of Western Storm Investigation and Related Contracting Deficiencies (GAO/T-OSI-92-5, Mar. 3, 1992) and (GAO/T-GGD-92-16, Mar. 3, 1992) and RTC Western Storm Follow-Up (GAO/GGD-93-8R, Dec. 4, 1992).

competitively awarded because RTC had competitively awarded the existing BOA.

In our testimony before the Committee and the follow-up letter, we stated that regional officials (1) improperly used the BOA, (2) did not obtain written justification and approval for a noncompetitive award from the RTC board before issuing the task order contracts, (3) exceeded their delegated expenditure authority, and (4) did not obtain contracting and legal advice regarding the appropriateness of the procurement procedure that was used. Bypassing established procedures led to contract documents that did not contain commonly used provisions that clearly defined work that was to be performed, set time frames for the completion of the work, and set a ceiling on expenditures. According to RTC's Inspector General (IG), the BOA allowed the contractor to realize an estimated gross profit rate of about 22 percent, which the IG characterized as unreasonable. The IG also reported that the region's misuse of the BOA contributed to performance problems, the inefficient use of funds, and cost overruns of about \$4 million.

Within months after the Western Storm project hearings, RTC officials entered into another contract with problems similar to those noted in the Western Storm project. On March 18, 1993, the Comptroller General testified on similar problems with RTC's task order contracts under BOAs at the HomeFed Savings Bank in San Diego.<sup>3</sup> He identified instances of RTC noncompliance with contracting procedures, poor planning and contract administration, and oversight problems. RTC's IG recently testified before the Committee regarding other problems with the use of BOAs at HomeFed.<sup>4</sup> The IG found that RTC had paid \$7 million—about 67 cents per page for labor only—for an accounting contractor to perform what were essentially photocopying services.

## Objectives, Scope, and Methodology

Our objective was to determine if RTC had internal controls that would detect abuses of BOAs. To do this, we reviewed RTC's efforts to conduct adequate and fair competition using BOAs and assessed RTC's CARS as a tool for managing the use of BOAs. As of July 1, 1992, RTC's field contracting

<sup>3</sup>Resolution Trust Corporation: Funding, Organization, and Performance (GAO/T-GGD-93-13, Mar. 18, 1993).

<sup>4</sup>Resolution Trust Corporation's HomeFed Contract With Price Waterhouse, Statement of the RTC IG, Before the Subcommittee on Regulation and Government Information, Senate Committee on Governmental Affairs, Testimony 93-1, February 19, 1993.



offices recorded an inventory of about 169 BOAs and 4,900 related task order contracts that were awarded by RTC.<sup>5</sup>

To measure RTC's efforts to conduct adequate and fair competitions, we reviewed existing program policies and procedures and interviewed officials at RTC's Office of Contracts in Washington, D.C., and at contracting offices in Atlanta, Chicago, Dallas, and Kansas City. We judgmentally selected 17 BOAs to review so that we could include a variety of services and a range of fees. We reviewed solicitation and selection procedures for all 88 task order contracts awarded under these 17 BOAs from January 1991 through April 1992 by the 4 field offices we visited. These task order contracts included 24 noncompetitive awards for \$5,000 or less and 64 competitive and noncompetitive awards for more than \$5,000. In total, these 88 task order contracts involved estimated fees of about \$34.3 million.

To determine RTC's use of fixed prices or ceiling amounts and delivery dates, we reviewed files for 54 of the 88 task order contracts in our review. The remaining 34 contract files did not contain sufficient information for us to analyze.

To assess CARS, we reviewed operating procedures and reports that it generated. We also asked RTC's field contracting staff to identify the number of BOAs created as of June 30, 1992, and compared this number to the CARS data.

RTC provided written comments on a draft of this report. A copy of these comments and our evaluation are included in appendix I, and we have incorporated the comments where appropriate. We did our work between January and December 1992 in accordance with generally accepted government auditing standards.

## RTC Had Weak Controls Over Task Order Contracts

RTC's policies and procedures for contracting using BOAs did not effectively encourage competition or provide sufficient safeguards to prevent deficiencies in the contractor selection process. We found that RTC frequently awarded task order contracts with one or two responsive bids and without management reviews. In addition, RTC awarded task order contracts that did not adequately protect the government's interests and made mistakes in the contractor selection process that limited offerors'

<sup>5</sup>CARS also recorded 1,674 task order contracts that were awarded by thrifts. Reasons for differences between the CARS and contracting office inventory of BOAs and task order contracts are discussed on page 15.

abilities and opportunities to compete. After the award of the task order contracts we reviewed, RTC revised its contracting program to provide guidance on task order contract solicitations and at the same time provide increased flexibility to its contracting staff. RTC established additional internal controls to ensure that RTC staff comply with its contracting system.

### Field Offices Obtained One or Two Bids for Task Order Contracts

RTC's policy stated that BOA pools are required to include as many contractors as would be necessary to ensure adequate competition for task order contracts. However, RTC had not clearly defined what constitutes adequate competition. Twenty-nine of the 61 task order contract solicitations we reviewed with estimated fees of more than \$5,000 received 1 or 2 acceptable bid proposals. Of these 29 solicitations, 9 were noncompetitive; and of the competitive solicitations, 7 obtained only 1 responsive bid, and 13 obtained 2 responsive bids. In total, the task order contracts that were awarded as a result of these 29 solicitations involved estimated fees of about \$9.9 million.

RTC often obtained one or two bids for task order contracts, in part, because BOA pools included only one or two prequalified contractors. We found that 28 of 169 BOA pools created by RTC as of June 30, 1992, had one or two prequalified contractors. For example, under a BOA with two prequalified firms in its pool, five of eight task order contracts were awarded on the basis of one responsive bid.

Even when the number of contractors in the BOA pool was greater than one or two, competition for task order contracts was limited because the number of contractors solicited was restricted. For example, RTC headquarters created a national auction services BOA with nine prequalified contractors in the pool. However, to expedite the contractor selection process, RTC field contracting offices were told to limit their solicitations to a rotating group of three contractors for each task order contract. As a result, at one field office, five of eight task order solicitations generated only one responsive bid. The estimated fees for the five task order contracts were about \$1.93 million. RTC's revised contracting manual of May 1992 discourages the practice of limiting solicitations to a small rotating group.

The practice of receiving one or two bids raises questions regarding whether this level of competition is adequate. At the time these task order contracts were issued, RTC's contracting procedures contained little

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guidance on competition for task orders. Subsequently, in May 1992, guidance for obtaining competition for task order contracts was revised. The revision emphasized that RTC field offices should create BOA pools with "as many firms as is necessary" to ensure the advantages of adequate competition and also emphasized that BOAs may be established with "one or more" firms.

In addition, the manual states that when possible, all BOA contractors should be solicited for each task order contract.<sup>6</sup> However, if that is not possible, "some type" of fair and consistent selection shall be used. This portion of the guidance gives RTC staff increased flexibility in determining the extent of competition for task order contracts but does not require staff to document reasons for not soliciting all contractors, nor does it provide guidelines for staff to determine whether selection methods ensure fairness and consistency.

Overall, this revised guidance gives RTC's field contracting staff the responsibility for determining if a sufficient number of bids has been received. In some cases, such as following a widely distributed contract solicitation, the receipt of one or two bids may reflect adequate competition. To ensure that such a level of competition is acceptable, RTC management needs to monitor these decisions and ensure that the mechanism to monitor the competition is working satisfactorily.

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### Field Offices Awarded Many Task Order Contracts Without Management Reviews

We found that RTC's implementation of internal controls over expenditures was inadequate to prevent field contracting offices from exceeding their delegated authorities for awarding professional services and noncompetitive task order contracts.<sup>7</sup> Thirty-five of the 64 professional services and noncompetitive task order contracts for more than \$5,000 should have been reviewed and approved by either a regional or headquarters manager before the contracts were awarded, as required by RTC guidance. Of these 35 task order contracts, 34 were not reviewed and approved at the required managerial level.

We reviewed 26 task order contracts for professional services involving estimated fees of more than \$100,000 each and 2 task order contracts

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<sup>6</sup>RTC's Contract Policies and Procedures Manual, Revision dated May 6, 1992, pp. 7-8.

<sup>7</sup>Professional services include but are not limited to general or administrative legal services, architectural or engineering services, professional accounting and consulting services, outside programming and systems analysis, educational advisory services, banking and finance education services, and other professional advisory services.

involving estimated fees of more than \$500,000 each. In all but one case, the program office did not obtain the field executive director's or chairman's review and expenditure approval as required by RTC contracting procedures. The awarding contracting offices exceeded their delegated expenditure authorities for these 27 task order contracts by a total of about \$16.4 million, or an average of about \$606,700 per contract. We also reviewed seven noncompetitive task order contracts involving estimated fees of about \$7.9 million. In each of these contracts, noncompetitive procedures were used without appropriate approval from regional directors.

The field contracting officers we spoke with in four field offices were confused about approval authorities for professional services and other administrative expenditures. Some of the field contracting officers were unaware that RTC headquarters had delegated separate expenditure authorities for administrative contracting, while others said that administrative expenditure authorities only pertained to contracts for office supplies and equipment maintenance services.

### **RTC Task Order Contracts Did Not Always Protect the Government's Interests**

About one-third of the task order contracts we reviewed lacked basic provisions to protect the government's financial interests. Those task order contracts did not always contain, when required by applicable RTC contracting procedures, fixed prices or ceiling amounts and firm delivery dates. In addition, RTC had modified some of the task order contracts, which increased ceiling amounts and delivery dates, without adequate documentation.

Files for 54 of the 88 task order contracts contained sufficient information for us to assess whether they included the needed provisions. Of the 54 task order contracts we reviewed, 5 did not have fixed prices or ceiling amounts, 10 did not have firm delivery dates, and 2 lacked both fixed prices or ceiling amounts and firm delivery dates. Without cost or time limits, RTC cannot adequately control its costs or accurately assess contractor performance.

For example, in August 1991, a field contracting office used a national BOA to retain a contractor to prequalify about 5,000 home buyers. RTC authorized an expenditure of \$443,750 but did not place this amount in the task order contract as an expenditure ceiling. The contractor prequalified over 9,600 applicants and submitted an invoice for \$857,680—a cost of 93 percent more than RTC estimated. The field contracting officer

expressed the opinion that the contractor took advantage of RTC because a ceiling amount had not been written into the contract. After the task order contracts we reviewed were awarded, RTC revised its contracting manual to require that all task order contracts be awarded on either a fixed-price basis or a time-and-materials basis with a specified ceiling amount.

Although contracting procedures permit RTC to modify its task order contracts, we found examples in which the modifications were either not documented as required or not approved in a timely manner. Twenty-two of the 54 task order contracts we reviewed were modified. The original estimated fees for the 22 task order contracts were about \$6.3 million. The modifications increased the contractor fees by about \$9.2 million—about 147 percent. For 6 of the 22 task order contracts, either the reasons for the modifications were not documented or the modifications were approved after the work was completed. RTC's procedures require that RTC staff prepare a detailed explanation of the reasons for and nature of any modification. For example, a modification to extend a contract delivery date from February 15 to April 30, 1992, was approved on April 27. This modification increased the original contract costs by \$25,250.

We also found that some of the justifications for the modifications were general and may not have been in the best interest of the government. For example, the justification to modify one task order contract stated that it was "to extend and increase the fixed price" from \$19,389 to \$87,069, which is a 349-percent increase in estimated fees. Further, the delivery date for the same task order contract was extended about 4 months from April 16, 1991, to August 27, 1991. No other written justification or explanation appeared in the file. Another contract was modified to include additional work. However, the file did not identify the nature of the additional work or explain why the work was not included in the original contract.

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## Deficiencies in Contractor Selection Process

Internal controls in RTC's contracting program did not adequately prevent deficiencies in the contractor selection process. Of the 61 task order contract solicitations of more than \$5,000 that we reviewed, 27 contained 1 or more deficiencies in the contractor selection process. In the files we reviewed, contracting officers (1) did not follow written guidance for competing task order contracts or document actions taken during the contractor selection process, (2) evaluated proposals using inappropriate criteria and methodologies, or (3) made computational errors.

These deficiencies affected the contractor selection decisions, limited offerors' abilities and opportunities to compete, and increased RTC's costs by at least \$1 million. Overall, the cumulative effect of these deficiencies was to undermine RTC's ability to provide contractors fair and consistent treatment and reduce management's assurance that task order contracts were awarded at a fair price to the best offeror. Examples of the deficiencies we found follow.

- Thrift Closing Assistance BOA. RTC's Insurance/Settlement Section created a national thrift closing assistance BOA. In June 1991, a field contracting office used the BOA to procure assistance in closing two thrifts with assets of about \$330 million and \$500 million, respectively. The field office received and evaluated six offers. However, the contracting officer incorrectly recorded the cost points awarded to one of the contractors when completing a contractor selection approval form. The error increased the contractor's score by 10 points and, as a result, the contractor won the contract. The error increased estimated contractor fees by about \$17,350.
- Auction Services BOA. In August 1991, using a national auction services BOA, a field contracting office solicited offers from three firms to market and auction small residential properties under RTC's Affordable Housing Program. It received two proposals with estimated fees of \$275,805 and \$429,460. An evaluation panel rejected the lower offer because, among other things, the proposal did not demonstrate the contractor's understanding of RTC's Affordable Housing Program. However, RTC headquarters had previously evaluated the contractor's ability to work with the Affordable Housing Program and judged it to be acceptable. By not selecting the lower offer, the field contracting office increased estimated contract costs by about \$150,000.

These deficiencies occurred, in part, because RTC's contracting procedures did not require a review of the contractor selection process before the field contracting office awarded the contract. In awarding task order contracts, contracting officers are to prepare written justifications to support expenditure approvals. The primary purpose of this procedure is to ensure that an adequate basis exists for the contract. Although contracting officers certified in the written justifications that they followed appropriate policies and procedures, at the time these task order contracts were issued, the process did not include a review or other internal control mechanism to ensure that the contractor selection process was done correctly. In May 1992, RTC revised its internal controls, which

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are intended to reduce RTC's vulnerability to errors in the contracting process.

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## RTC Revised Internal Controls

In May 1992, RTC revised its contracting manual to clarify the responsibilities of various offices and expand the descriptions of some aspects of the contracting system. However, other changes to the contracting manual seem to have increased rather than reduced RTC's vulnerability to fraud, waste, and abuse. In response to staff criticism about the contracting system's ability to meet staff needs for timely issuance of contracts, the revised manual provides wide decisionmaking discretion for staff at several critical and sensitive points in the contracting system. For example, RTC's revised contracting manual gives RTC staff the discretion to determine the extent of competition. Under the previous contracting system, RTC required its staff to solicit every contractor from a preapproved list and in some situations to use a detailed random selection methodology. The revised contracting manual allows the staff to solicit contractors from a variety of sources. Other contracting manual revisions give RTC staff discretion in determining the extent and manner that negotiations will be conducted.

In addition to revising its contracting manual, RTC created three programs to better control and monitor its contracting operations. Under the Contracting Officer Warranting Program, established in May 1992, only certain authorized contracting officers may sign contracts obligating RTC. This program reduces the possibility that staff who are unfamiliar with contracting system requirements will award contracts. Under the Field Monitoring Program, established in June 1992, 3 RTC headquarters staff members are responsible for monitoring about 1,000 new contracts and contract modifications that are completed each month at RTC's 6 field contracting offices. The Field Monitoring staff is also to review compliance with RTC policies and procedures. RTC also introduced the Competition Advocacy Program in August 1992. Under this program, a total of 10 staff members are to help promote fair and adequate competition by reviewing the contractor selection process. RTC officials estimate that each of these staff members will examine from 75 to 200 contracts per month. We have not assessed whether these programs have been effective in improving the internal controls of RTC's contracting process.

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## Other Management Reforms Intended to Improve Contracting and Strengthen Internal Controls

In March 1993, the Chairman, Thrift Depositor Protection Oversight Board, presented a 10-point program of reforms for the President and Chief Executive Officer of RTC to implement immediately. One of these reforms addresses RTC contracting. Specifically, under the 10-point program's contracting reform, RTC would strengthen its contracting systems and contractor oversight by ensuring that (1) contracts are adequately planned, including a clear assessment of services needed and scope of work definitions; (2) all policies and procedures are followed in the solicitations, selections, and awarding of contracts; (3) adequate and sufficient oversight is exercised to ensure that policies and procedures are followed; and (4) management's span of control over contractors provides for sufficient and adequate staffing to protect RTC's interest.

Another of the 10-point reforms addresses overall improvements to strengthen internal controls at RTC. One of the objectives under this reform would be for RTC to ensure full management commitment to developing and maintaining an accountable internal control environment. As of June 1993, the plans for implementing the 10 reforms were being developed. When fully implemented, these reforms could reduce the likelihood of future problems in the use of BOAS and the awarding of task order contracts at RTC.

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## Management Lacks Information Needed to Monitor Contracting Activities

As RTC implements its contracting reforms, it will need a system for monitoring the actions taken by its contracting staff. Although RTC has made some improvements to its contracting program, it has not improved CARS, its contracting information system. RTC still lacks adequate information with which to monitor contracting. CARS only provides an inventory of contract solicitations and awards. It does not, for example, identify

- the dollar level of the expenditure authority and the name of the approving official;
- the number of qualifying bids received;
- noncompetitive awards, when applicable, and approving official; and
- the number and cost of contract modifications.

This information could enhance RTC's ability to monitor the field staff contracting activities and compliance with contracting policies and procedures. RTC also needs this information to enhance the effectiveness of its Field Monitoring and Competition Advocacy programs.



Further, CARS data were frequently inaccurate. The field contracting offices we visited did not have the same number of BOAs as that listed in the CARS database, and the number and estimated fees of awarded task order contracts were often inaccurate. For instance, we reviewed a regional BOA for tax and accounting services that according to the CARS database had been used to award 32 task order contracts involving a total value of about \$13.6 million. When we inquired why a \$392,000 task order contract had been awarded to each of the 14 firms in the BOA pool on the same day, we were told that the field contracting office had awarded only 1 task order contract but had erroneously entered data under each firm's record. As a result, CARS overstated the number of awarded task order contracts by 13 and the amount of estimated fees by about \$5.1 million.

Because of such data errors, we asked all of the contracting offices to review their files and provide information on the number of BOAs created. The field contracting offices reported a total of 169 BOAs were created by RTC as of June 30, 1992. However, CARS listed 290 BOAs awarded by RTC field contracting offices as of July 1, 1992. Thus, in this case, the difference between the CARS data and those provided by the field contracting offices was about 72 percent.

A December 1992 report by the RTC IG also noted inaccuracies in CARS data.<sup>8</sup>

The IG could not identify the error rate on CARS data because RTC headquarters contract folders did not contain the supporting documentation required to verify accuracy. However, 7 of the 11 contracts the IG reviewed had inaccurate data. These inaccuracies included data elements such as contract award data, solicitation closing date, estimated fees, contractor name, and institution.

## Conclusions

The Western Storm project demonstrated that RTC undervalued contracting controls, which led to fundamental weaknesses in RTC's contracting system. Specifically, poor monitoring, implementation problems, and weak internal controls over the use of BOAs created an environment that allowed problems to occur with Western Storm. Following Western Storm, similar problems occurred in task order contracts at HomeFed Savings Bank that were reported by the Comptroller General and RTC's IG.

<sup>8</sup>Development and Implementation of the Contracting Activity Reporting System and Related Systems, Audit Report A03-004, December 8, 1992, p. 19.

Our review of other task order contracts using BOAs showed that at the time these contracts were issued, RTC was not able to ensure that field offices were complying with its policies and procedures. We found that RTC lacked a mechanism to ensure that there was adequate competition for task order contracts that were awarded based on one or two responsive bids. We also found that RTC (1) did not ensure the proper use of delegated expenditure authority and noncompetitive contracting procedures and (2) made mistakes in the contractor selection process. Furthermore, RTC's task order contracts did not always contain provisions required to adequately protect the government's interests.

Although RTC has revised its contracting manual and initiated additional contract oversight programs, better controls are needed. Since the task order contracts we reviewed were issued, RTC revised its guidance to define acceptable competition for task order contracts. This guidance increases the flexibility RTC staff have in determining the extent of competition.

To ensure that this flexibility does not result in few responsive bidders, RTC needs to closely monitor the contractor selection process. With the establishment of the Contracting Officer Warranting Program and the Field Monitoring and Competition Advocacy programs, RTC has provided some additional emphasis for ensuring that contracting staff comply with contracting policies and procedures. Also, the 10-point program presented by the Chairman, Thrift Depositor Protection Oversight Board, is intended to reform RTC's contracting operations and emphasize internal controls, among other things. Significant improvements may result when these programs are implemented.

These programs are positive steps. However, given its volume of contracting actions, RTC needs but does not have an adequate information system for monitoring, supporting, and enhancing the effectiveness of these programs.

## Recommendations

We recommend that RTC's President and Chief Executive Officer do the following:

- Monitor the contracting program changes, including the implementation of the 10-point program, to ensure that they provide effective controls for (1) obtaining management reviews and approvals, (2) monitoring the extent of competition for task order contracts, (3) preventing deficiencies

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in the contractor selection process, and (4) protecting the government's financial interests.

- Improve RTC's contracting information system, CARS, by (1) ensuring that the data entered are complete and accurate and (2) including additional information to help managers monitor field office contracting practices. Specifically, the system should identify noncompetitive awards, numbers of bidders, and the frequency and impact of contract modifications.

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## RTC Comments and Our Evaluation

In written comments on a draft of this report, dated July 29, 1993, and supplementary comments dated August 13, 1993, RTC stated that it agreed with the report's recommendations and is developing a detailed implementation plan for one recommendation and has established a task force to study the other recommendation. Copies of RTC's comments are in appendix I.

Concerning our first recommendation, to monitor contracting program changes, RTC is developing an oversight program for its Field Monitoring and Competition Advocacy programs. As RTC discussed in its letter of August 13, 1993, this oversight program should be completed by October 15, 1993.

In addition to developing this oversight program, in its letter of July 29, 1993, RTC identified four actions that should improve its contracting system. These actions include improving contracting policies and procedures, assigning responsibilities for contracting actions, clarifying expenditure approval authority, and defining disciplinary action for not complying with the contracting system. We believe these actions are positive steps toward improving internal controls over RTC's contracting system. However, as we discussed earlier in our report, RTC needs to ensure that these actions effectively improve internal controls. Accordingly, for RTC to implement our first recommendation, it needs to focus on evaluating the effectiveness of the Field Monitoring and Competition Advocacy programs.

In response to our recommendation on the contracting information system, RTC has established a task force to determine the best approach for the collection and use of additional information for management and control purposes. We agree that establishing this task force is a reasonable first step for RTC toward improving its contracting information system.

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As agreed with the Committee, we plan no further distribution of this report until 30 days from the date of this letter, unless you publicly announce its contents earlier. At that time, we will send copies to the President and Chief Executive Officer of RTC; the Chairman of the Thrift Depositor Protection Oversight Board; and other interested congressional committees and Members. We will also provide copies to others upon request.

The major contributors to this report are listed in appendix II. Please contact me on (202) 736-0479 if you have any questions concerning this report.

Sincerely yours,

A handwritten signature in black ink, reading "Gaston L. Gianni, Jr." in a cursive script.

Gaston L. Gianni, Jr.  
Associate Director, Government  
Business Operations Issues



# Agency Comments



**RESOLUTION TRUST CORPORATION**  
Resolving The Crisis  
Restoring The Confidence

August 13, 1993

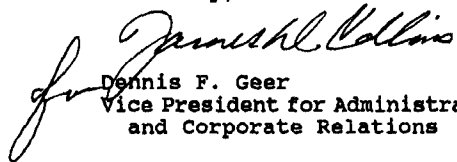
Mr. Johnny C. Finch  
Assistant Comptroller General  
United States  
General Accounting Office  
Washington, DC 20548

Dear Mr. Finch:

Thank you for the opportunity to provide additional information to supplement our original written response to your draft report entitled Resolution Trust Corporation: Additional Monitoring of Basic Ordering Agreements Needed. We agree with the recommendations as stated in the audit report. As noted in our original response, the majority of the recommended actions have already been addressed.

As to your request for more detailed information related to the Field Monitoring Process and Competition Advocacy Program, we will provide your office with a detailed description of the monitoring process no later than October 15, 1993. These procedures are currently being designed and developed.

Sincerely,



Dennis F. Geer  
Vice President for Administration  
and Corporate Relations

801 17th Street, N.W. Washington, D.C. 20434



**RESOLUTION TRUST CORPORATION**  
Resolving The Crisis  
Restoring The Confidence

July 29, 1993

Mr. Johnny C. Finch  
Assistant Comptroller General  
United States  
General Accounting Office  
Washington, DC 20548

Dear Mr. Finch:

Thank you for the opportunity to review your draft report entitled Resolution Trust Corporation: Additional Monitoring of Basic Ordering Agreements Needed. Your report stated that your goal was to assess RTC's success in establishing and implementing internal controls to detect abuses of Task Order Agreements (TOAs) and other types of contracts, and assess RTC's contracting information system as a management tool for monitoring the contracting process. As noted in your report, the majority of the contracts reviewed were awarded prior to May 1992, when the contracting process was completely revised in an effort to better serve all parties involved in the process.

Since the May 1992 major revision of the RTC contracting policies and procedures, and in the five revisions made to those policies and procedures since then, many of the issues raised in your draft have been addressed. I am providing comment on the recommendations in your report as to how the issues you raised are being resolved.

The majority of the recommendations put forth in your report are related to assuring that the field offices and headquarters contracting staff comply with contracting policies and procedures. The assurance that RTC staff is complying with the policies and procedures relies on the following:

- (1) Policies and procedures must exist that are practical and clearly defined;
- (2) Responsibility for each phase of the contracting process must be clearly assigned and understood;

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- (3) Authority to initiate, provide expenditure approval, and execute contracts, including non-competitive contracts, must be established and communicated throughout the corporation; and
- (4) Defined disciplinary actions must exist and be initiated when an employee takes action outside the bounds of his/her authority.

In successfully accomplishing the four actions listed above, the RTC has already addressed five of the six recommendations outlined in your report.<sup>1</sup>

RTC's accomplishments are listed below:

- (1) Policies and Procedures Must Exist That Are Practical and Clearly Defined

RTC operates in a very dynamic environment. As a federal entity, it must respond to multiple outside forces; including but certainly not limited to, the public, contractors, Congress, the General Accounting Office (GAO), and the Office of the Inspector General (OIG). In addition, RTC is internally monitoring the success of its contracting process based upon feedback from its contracting staff, the "customers" in the various program offices, and internal review groups such as the Field Monitoring Section and the Office of Administrative Evaluation. The result is a schedule of monthly updates of contracting policies and procedures.

Adherence to the current policies and procedures, including Revision Five of the Contract Policies and Procedures Manual (CPPM), would accomplish the first five recommendations included in your report.

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<sup>1</sup> The recommendations outlined on Page 30 of the draft report that are addressed in this letter are: (1) Obtaining management reviews and approvals; (2) Monitoring the extent of competition for task orders; (3) Preventing deficiencies in the contractor selection process; (4) Protecting the government's financial interests; (5) Improving the contracting information system by ensuring that data entered are complete and accurate; and (6) Including additional information to help managers monitor field office contracting practices.



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**Accomplishments:**

Revision of the Contract Policies and Procedures Manual (CPPM) This document is updated monthly and has implemented or expanded policies and procedures to address concerns raised by the GAO in this report.

Contracting Desk Guides Desk Guides have been developed which supplement the information presented in the CPPM.

Training Courses addressing all aspects of the contracting process have been developed and presented to staff from various offices and entities including contracting, program offices, conservatorships, and the OIG. These courses are designed to present the policies and procedures for engaging contractors and administering contracts. The training program is an ongoing project.

Establishment of the Office of Administrative Evaluation (OAE) The Office of Administrative Evaluation is responsible for making formal visitations to all RTC offices and reviewing adherence to contracting procedures. OAE identifies the weaknesses in the system by interviewing the contracting staff about issues of concern and reviewing contract files for signs of noncompliance or insufficiency.

**(2) Responsibility For Each Phase of the Contracting Process Must Be Clearly Assigned and Understood**

The roles for initiating contracts, approving the expenditure of funds for contractor services, executing, modifying, and terminating contracts were not clearly understood throughout the corporation in late 1991. RTC took action after recognizing a need to correct the situation. Strict adherence to the roles and responsibilities assigned to the different groups involved in the contracting process would respond to your first four recommendations.

**Accomplishments:**

Delegations of Authority The corporate delegations have been clarified and the addition of specific delegations related to contracting actions have been established. These delegations are currently undergoing review and further revision where necessary to make them easier to understand.

Contracting Officer Warrant Program This program provides authority to individual contracting officers

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to execute contracts up to specified dollar levels. The dollar levels of the warrants were based upon training, experience and position in the RTC organization.

Revision of the CPPM The CPPM was completely revised in May 1992 and is currently revised on a monthly basis to include specific roles and responsibilities assigned to the various parties throughout the contracting process

Contracting Training Courses These courses support the CPPM and emphasize the roles of each group in the contracting process.

- (3) **Authority to Initiate, Approve Expenditure of Funds For, and Execute Contracts Must Be Established and Communicated Throughout the Corporation**

Adherence to the established delegations would ensure that Recommendations One and Four were addressed.

**Accomplishments:**

Creation of the "C" Delegations To further clarify authority related to contracting actions the delegations were expanded to specifically address contracting. The authority to initiate, expend funds, and execute contracts is outlined in the RTC "C" Delegations of Authority. These delegations are accessible to all RTC personnel with access to the Records Management System on the RTC mainframe.

Creation of the Contracting Officer Warrant Program The warrants program further defines delegated authorities and provides an internal control mechanism for enforcing adherence to contracting policies and procedures.

- (4) **Defined Disciplinary Actions to Be Followed When an Employee Takes Action Outside the Bounds of His/Her Authority**

In addition to the standard disciplinary measures taken by government agencies to handle issues where employees have overstepped their line of authority, the RTC

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created policy to deal with warranted contracting officers failing to comply with established contracting procedures.

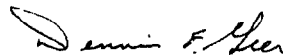
**Accomplishments:**

Suspension/Termination of Warrants For warranted contracting officers, the failure to comply with RTC contracting policies and procedures will result in suspension or termination of their warrants as outlined in Chapter Two of the CPPM.

Recommendation Six, including additional information in a contracting information system to help managers monitor field office contracting practices, is a valid recommendation. RTC has established a task force to determine the best method for collecting and using the additional contracting data for management and control purposes.

RTC exists in an environment where inaction is often more costly than taking action that later proves not to have been the best option available. With the improved Policy and Procedures, coupled with the strengthened internal controls, we feel that our staff is able to meet the demands and will ensure our actions are in the best interest of the Government.

Sincerely,



Dennis F. Geer  
Vice President for Administration  
and Corporate Relations

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